



Investment Policy Statement
State of Rhode Island and Providence Plantations
Office of the General Treasurer
July 2012

1. Plan Information

The Rhode to Retirement Plan (herein referred to as “the Plan”) was established in 2012 by the State of Rhode Island in accordance with Rhode Island General Laws (herein referred to as “RIGL”) Title 36, Chapter 10.3 to provide eligible employees the opportunity to generate the long-term accumulation of retirement savings through employer and employee contributions to individual participant accounts and the earnings thereon.

The Plan is organized as a 401(a)/414(h)(2) employee benefit plan intended to comply with all applicable state and federal laws including the Internal Revenue Code of 1986, as amended. The Plan’s purpose is to provide a vehicle to accumulate and grow assets to fund retirement needs for eligible employees.

The State Investment Commission (herein referred to as “the SIC”) is charged with plan design and implementation in addition to the on-going monitoring and management of the investment lineup.

The Retirement Board of the Employees Retirement System of Rhode Island (herein referred to as “the Board”) is the Plan administrator and Plan trustee.

2. Purpose of the Investment Policy Statement

This Investment Policy Statement (herein referred to as “IPS”) is intended to help establish and record policies in order to assist in future decision making, to help maintain consistency of policies for future SIC members and Board members and to clarify expectations for service providers and money managers.

This IPS shall be reviewed periodically by the SIC and Board and, if appropriate, can be amended to reflect changes in the capital markets, Plan objectives, Plan demographics, legislative and regulatory changes, investment lineup or other factors relevant to the Plan.

3. Statement of Objectives

The Plan provides a vehicle for eligible participants to take an active role for their retirement by providing education and information so that they can make informed decisions about their retirement and investment option selections.

4. Plan Structure

The Plan is a Qualified 401(a) Plan and Trust with a 414(h)(2) pickup although it is not an ERISA plan and does not fall under the purview of the Department of Labor. The Plan will provide participants with various investment or funding options broadly diversified with distinct risk and return characteristics. With few exceptions, participants have the opportunity to make transfers among the Plan's funding options on a daily basis and with frequencies appropriate for the volatility associated with particular investments that are considered to be non-core.

5. Roles and Responsibilities

State Investment Commission – The SIC shall determine from time to time the investment options available under the Plan. The Plan shall provide for appropriate long-term retirement oriented investments, and shall include annuity or annuity-like options as determined by the SIC.

The Employees Retirement System of Rhode Island Retirement Board – The Board shall be the Plan administrator and Plan trustee and shall administer the Plan in accordance with section RIGL Section 36-8-4.1.

6. Current Investment Lineup

The current investment options offered under the Plan shall be listed in Appendix A to this IPS. The investment options provide opportunities to diversify across the risk-return spectrum with a range of investment choices within varied asset classes. The SIC will conduct regular reviews of investment returns against standard benchmarks applicable to the respective option.

7. Investment Menu Design

While offering a variety of funding options is important, efforts will be made to keep the total number to a prudent level that balances the benefits of broad diversification with the disadvantages of too many choices. At a minimum, the Plan shall offer sufficient investment options to well represent at least four major asset classes: Guaranteed or Stable Value, Cash or Cash Equivalents, Fixed Income, and Domestic

and International Equities. Other alternative asset classes such as Real Estate and Emerging Markets Equities may also be included.

With respect to the establishment of an upper limit on the number of funding options, the Plan should not provide so many options as to create excessive redundancy in funding options, generate increased fund monitoring and/or administrative costs, cause undue complexity in plan design, or create confusion for Plan participants.

8. Asset Class Guidelines

The Plan shall provide each participant with the ability to diversify among an array of asset classes in order to construct individual portfolios consistent with their desired level of risk over their respective time horizons. The Plan will offer funding options through mutual funds and annuities in the following asset categories listed below (could be all or several of these):

- Cash or Equivalents
- Guaranteed or Stable Value
- Lifecycle/Target Date Funds
- U.S. Fixed Income (Government, Government/Credit, High Yield, Short/Intermediate/Long Term)
- U.S./Global Inflation-Protected Fixed Income
- Global International Fixed Income
- U.S. Equities (All Cap, Large, Mid, Small Caps, in Value/Core/Growth Styles)
- Global/International/Emerging Market Equities (All Cap, Large/Mid/Small Caps, in Value/Core/Growth styles)
- U.S./Global Socially Responsible Equities
- U.S./Global REIT
- U.S./Global Direct Real Estate
- U.S./Global Commodities

9. Fund Managers

In general, the primary responsibility of the fund managers is to invest assets in accordance with the investment objectives of the fund, the requirements of federal and state law, and in accordance with their own judgments concerning relative investment values. The fund managers are responsible for determining the prices at which securities are bought and sold. Fund managers are responsible for developing the investment objectives and strategies for each fund and the implementation thereof.

The specific duties and responsibilities of each fund manager or its representatives include the following:

1. To manage the fund's assets in accordance with the guidelines and objectives contained within their published guidelines.
2. To exercise full investment discretion in regard to buying, managing, and selling assets held in the Plan's portfolio in accordance with their published guidelines.
3. To vote promptly all proxies and related actions in a manner consistent with the long-term interest and objectives of the investors. Each fund manager shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.
4. To furnish the SIC with regular investment reports as outlined in this IPS.

10. Default Investment Alternative

Target Date Retirement funds, which provide participants with age appropriate asset allocation, are designated as the default investment option in the Plan. The default options will be used in situations where a participant does not actively select funding options under the Plan. Each default option shall be reviewed periodically to ensure it continues to be an appropriate default option.

11. Plan Vendors, Investment Managers and Investment Options Selection Process

When evaluating providers to offer funds/accounts under the Plan, the SIC will choose investment options provided by a qualified bank, insurance company, mutual fund or investment management company.

Plan Vendor/Investment Manager Assessment

The SIC shall conduct periodic assessments of the companies providing this option. The assessment can include a review of the following, if applicable:

- History of the company
- Part II of Form ADV for investment advisors under the Investment Advisers Act of 1940
- Management and ownership structure
- Breadth of products offered
- Financial stability of the company issuing the investment option
- Investment philosophy
- Any material pending or concluded legal violations

Additional aspects of the Investment Provider may be reviewed at the discretion of the SIC.

General Selection Requirement for All Investment & Funding Options

All Plan funding options should maintain the following characteristics:

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1. **Diversification by Holdings:** Except for Insurance Company General Account products, all investment options shall maintain a sufficient number and breadth of holdings to provide an adequate representation of the primary characteristics of the benchmark index or as deemed appropriate by the investment manager.
2. **Competitive Fee Structure:** The impact of fees on the long-term performance of the funding options within the Plan shall be an important consideration. Overall expenses, including sales loads, 12b-1 fees, administrative charges, and mortality and expense charges (for annuity accounts) can significantly detract from long-term performance. No mutual funds with front-end or back-end sales charges shall be allowed. All fee and revenue sharing (if applicable) information should be transparent and adequately disclosed to participants.
3. **Track Record of Investment Option:** Each actively managed funding option should target a minimum track record of three years during which the same portfolio management team managed the fund. The three-year requirement may be waived at the discretion of the SIC if the manager has a proven track record of managing assets in the same category under consideration, or if the fund is an “index” strategy.
4. **Track closely to their stated investment objective:** Each funding option’s objective should remain consistent with the option’s role within the Plan’s overall investment structure.

Selection Requirement for All Investment & Funding Options

Guaranteed or Stable Value

Investment Objective: A Guaranteed option provided by the Insurance Company or Investment Manager (Issuer), which seeks to provide a minimum level of income while preserving principal. This option is typically supported by the Trust Fund of the Manager or the General Account of the Insurance Company.

Guidelines:

1. **Performance:** This investment option should have a guaranteed rate of return that is competitive with other similar options in the marketplace.
2. **Issuer Credit Rating:** The issuer shall have and maintain a rating that conveys significant financial strength as determined by nationally recognized statistical rating agencies such as A.M. Best, Standard & Poor’s, Moody’s, and Fitch.

Cash or Cash Equivalents

Investment Objective: The cash option shall invest in a portfolio of short-term securities to maximize current income while preserving capital.

Guideline:

Performance: Annualized investment return shall be compared to appropriate benchmarks. Investment performance (net of fees) shall either (a) approximate or exceed relevant benchmarks or (b) be above the appropriate peer universe, with greater emphasis placed on long-term performance.

Fixed Income

Investment Objective: To seek favorable long-term returns by investing in a diversified portfolio of fixed income securities achieving returns through interest payments and capital appreciation of the underlying securities.

Guideline:

Performance: Annualized investment return shall be compared to appropriate benchmarks. Investment performance shall either (a) approximate or exceed relevant benchmarks or (b) be above the appropriate peer universe, with greater emphasis placed on long-term performance.

Equities

Investment Objective: To seek favorable long-term returns from capital appreciation and dividend income by investing in a portfolio composed of a broad cross-section of common stocks. These funds can invest in domestic stocks, foreign stocks, or a combination of the two.

Guideline:

Performance: Annualized investment return shall be compared to appropriate benchmarks. Investment performance shall either approximate or exceed relevant benchmarks or be above the appropriate peer universe, with greater emphasis placed on long-term performance.

Real Estate

Investment Objective: To seek favorable long-term returns from income and appreciation primarily from private real estate investments.

Guidelines:

1. Performance: Annualized investment return shall be compared to appropriate benchmarks. Investment performance shall either (a) approximate or exceed relevant benchmarks or (b) be above the appropriate peer universe, with greater emphasis placed on long-term performance.
2. Investment Process: The funding option shall invest in real estate primarily through direct ownership of properties. The holdings shall be diversified both by property type (including commercial office, residential, and retail) and geography.

Index Funds

Investment Objective: To achieve a rate of return that approximates the return of a specific benchmark investment index after making a reasonable allowance for costs.

Guidelines:

1. Performance: The returns of the investment option shall be compared to appropriate benchmarks, and investment performance shall approximate the return of the relevant benchmark.
2. Investment Process: The funding option will seek to approximate the return of its target benchmark by investing in the same or a representative sampling of those securities that are held by the benchmark.

Lifecycle Funds

Investment Objective: To provide a multi-asset-class funding solution that offers investment diversification incorporating an allocation that progresses from more aggressive to more conservative as the participant approaches a given target retirement date.

Guidelines:

1. Performance: Annualized investment return shall be compared to appropriate benchmarks. Investment performance shall either (a) approximate or exceed relevant benchmarks or (b) be above the appropriate peer universe, with greater emphasis placed on long-term performance.
2. A periodic review of the Lifecycle Fund's asset allocation and rebalancing strategies will be undertaken to ensure the prudence of these processes. Consideration will also be given to the stability and continuity of the funds included in the Lifecycle offering.
3. Investment Process: Lifecycle fund portfolio is composed of allocations to a variety of underlying funds with differing risk/return characteristics. Multiple Lifecycle funds are made available, each with a different target maturity date to accommodate Plan participants' various ages and anticipated retirement dates. The composition of each Lifecycle fund is modified over time following a predetermined schedule or glidepath, slowly adapting from a more aggressive allocation to an allocation that assumes less risk as the retirement date approaches.

12. Periodic Review

The ongoing monitoring of the Plan investment options is a regular and disciplined process. It is the mechanism for measuring ongoing compliance by each investment option. While frequent changes in investment lineup is neither expected nor desirable, monitoring the investment performance of the options in the Plan relative to specified guidelines is an ongoing activity, intended to be conducted quarterly but no less frequently than annually.

Each funding option shall be reviewed pursuant to the following evaluation criteria:

- Adherence to the original investment/account selection requirements, including long-term performance measures.
- Any material changes to the option's organization, process, or portfolio manager or team.
- Any material litigation or regulatory action against the firm that may impact future performance or the reputation of the provider.
- Significant loss or growth of assets under management.
- The fund/account is sufficiently utilized by plan participants.

If an assessment of an investment option against the evaluation criteria does not identify any significant issues, no further action by the SIC is necessary. If a material issue is identified for a particular option against any of the criteria, then the SIC may decide, in its sole judgment, to (i) take no action if it concludes that it has reasonable basis for such a conclusion, (ii) monitor the fund closely on a regular basis (quarterly, or semi-annually or annually) for at least one year as a means of evaluating future progress in addressing the issue of concern or (iii) terminate as an active funding option under the Plan.

It is important to recognize that the IPS provides guidelines to assist the SIC in its decision to select, retain or replace a funding option or investment manager, but the final decision shall not be made based on the outlined IPS criteria in isolation. The final decision shall be based on the SIC's confidence in

the funding option's ability to perform competitively in the future. Any final decision shall be an exercise of the SIC's sole and exclusive judgment.

APPENDIX A – 7/1/2012

State of Rhode Island DC Plan - 405868

NEW FUND LINE-UP			
INVESTMENT NAME	SHARE CLASS	TICKER	CUSIP
TIAA STABLE VALUE	STABLE VALUE ANNUITY	TSVX#	878094400
TIAA REAL ESTATE	VARIABLE ANNUITY	TREA#	878094200
TIAA-CREF INTERNATIONAL EQUITY FUND	INSTITUTIONAL	TIIE#	87244W102
PIMCO REAL RETURN FUND	INSTITUTIONAL	PRRIX	693391104
VANGUARD 500 INDEX FUND	SIGNAL	VIFSX	922908496
VANGUARD EMERGING MARKETS STOCK INDEX FUND	SIGNAL	VERSX	922042817
VANGUARD MID-CAP INDEX FUND	SIGNAL	VMISX	922908447
VANGUARD PRIME MONEY MARKET FUND	INVESTOR	VMMXX	922906201
VANGUARD SMALL-CAP INDEX FUND	SIGNAL	VSISX	922908421
VANGUARD TOTAL BOND MARKET INDEX FUND	SIGNAL	VBTSX	921937868
VANGUARD TARGET RETIREMENT 2010 FUND	INVESTOR	VTENX	92202E706
VANGUARD TARGET RETIREMENT 2015 FUND	INVESTOR	VTXVX	92202E300
VANGUARD TARGET RETIREMENT 2020 FUND	INVESTOR	VTWNX	92202E805
VANGUARD TARGET RETIREMENT 2025 FUND	INVESTOR	VTTVX	92202E409
VANGUARD TARGET RETIREMENT 2030 FUND	INVESTOR	VTHRX	92202E888
VANGUARD TARGET RETIREMENT 2035 FUND	INVESTOR	VTTHX	92202E508
VANGUARD TARGET RETIREMENT 2040 FUND	INVESTOR	VFORX	92202E870
VANGUARD TARGET RETIREMENT 2045 FUND	INVESTOR	VTIVX	92202E607
VANGUARD TARGET RETIREMENT 2050 FUND	INVESTOR	VFIFX	92202E862
VANGUARD TARGET RETIREMENT 2055 FUND	INVESTOR	VFFVX	92202E847
VANGUARD TARGET RETIREMENT 2060 FUND	INVESTOR	VTTSX	92202E839
VANGUARD TARGET RETIREMENT INCOME FUND	INVESTOR	VTINX	92202E102